



**Tax Policy & Research**  
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**REVENUE**

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DATE: October 4, 2001

TO: Governor's K-12 Public School Funding Advisory Council

FROM: Dan Dodds, Tax Policy Analyst

RE: Funding School District's BASE Budgets with a Uniform Levy

At its September 4 meeting, the Public School Funding Advisory Council asked how many mills would have to be levied statewide if the state were to fund all districts' BASE budgets. The number of mills that would need to be levied uniformly statewide to fund BASE budgets depends on how revenues currently used to fund BASE budgets would be used. This memo shows the calculation of a uniform mill levy for school districts' BASE budgets.

### **Background**

The revenue used to pay for BASE budgets for the 2001-2002 school year can be divided into four categories:

State General Fund – This category consists of interest and income earned by the school trust; revenue from the 95 statewide property tax mills, including the non-levy revenue allocated to these mills; and other general fund taxes used to fund the state's obligation to schools. It goes to school districts as direct state aid, guaranteed tax base aid, special education funding, the block grants provided for in HB124, and reimbursements for school districts' portion of business equipment tax cuts in HB20 and SB417. Current law provides for HB124 block grants only in the 2003 biennium and phases out HB20 and SB417 reimbursements, with the last payments in fiscal 2009.

Non-Levy Revenue Distributed by the State – A portion of the oil and natural gas production taxes, and all of the coal gross proceeds taxes, are allocated to jurisdictions that levy mills on the location where production occurs. These funds are allocated between taxing jurisdictions in proportion to their mill levies. Oil and natural gas tax is allocated on prior year mills and the coal gross proceeds tax is allocated in proportion to the mills levied in 1990.

Local Ad Valorem Property Taxes – Schools levy local property taxes to fund the BASE budget if the other revenues are insufficient to fund the BASE budget. The numbers shown in Table 1 are for the *ad valorem* property tax, and do not include non-levy revenue.

Other Revenue Collected Locally – Other local funds consist of reappropriated fund balances from the previous year, some federal funds received directly by districts, and a variety of district revenues such as tuition, summer school fees, and textbook rentals. The amount and use of some of these funds is expected to change in future school years.

Table 1 shows total projected 2001-2002 school year revenues of \$622 million, the BASE budget of \$619 million, and \$3 million of revenue that goes to the over-BASE budget. Some revenue goes to over-BASE because a few districts have more non-levy revenue than they need to fund the local share of their BASE budgets.

| <b>Table 1</b><br><b>Projected 2001-2002 Revenue and BASE Budget</b><br><b>All School Districts</b> |                   |                     |
|-----------------------------------------------------------------------------------------------------|-------------------|---------------------|
| <u>Revenue Source</u>                                                                               | <u>\$ Million</u> | <u>% of Revenue</u> |
| State General Fund                                                                                  |                   |                     |
| School Trust Interest & Income                                                                      | \$ 48.703         | 8%                  |
| Statewide Levies - 95 mills (with nonlevy revenue)                                                  | 169.908           | 27%                 |
| State General Fund - Other                                                                          | 234.310           | 38%                 |
| HB124 Block Grants                                                                                  | 43.600            | 7%                  |
| Property Tax Reimbursements - HB20 & SB417                                                          | 6.594             | 1%                  |
| Total State General Fund                                                                            | \$ 503.115        | 81%                 |
| State Collected Non-Levy Revenue                                                                    |                   |                     |
| Oil and Gas Production Tax                                                                          | 5.005             | 1%                  |
| Coal Gross Proceeds Tax                                                                             | 0.881             | 0%                  |
| Total State Collected Non-Levy Revenue                                                              | \$ 5.886          | 1%                  |
| Local Property Ad Valorem Taxes - BASE                                                              | \$ 95.257         | 15%                 |
| Local Revenue - not distributed on mill levies                                                      |                   |                     |
| District Fund Balance Reappropriated                                                                | 10.200            | 2%                  |
| Federal                                                                                             | 0.007             | 0%                  |
| Other District Revenues                                                                             | 7.600             | 1%                  |
| Total Local Revenue                                                                                 | \$ 17.807         | 3%                  |
| <b>Total Revenue</b>                                                                                | <b>\$ 622.065</b> | <b>100%</b>         |
| Total Revenue                                                                                       | \$ 622.065        | 100%                |
| BASE Budget                                                                                         | 619.184           | 100%                |
| <b>Revenue Allocated to Over-BASE Budget</b>                                                        | <b>\$ 2.881</b>   | <b>0%</b>           |

As Table 1 shows, the state general fund will be paying 81% of the total BASE budget. State-collected non-levy revenue will be paying 1%; local *ad valorem* property taxes will be paying 15%; cash reappropriated 2%; and other local collections 1%.

The revenues that can be used to fund school districts' BASE budgets exceed total BASE spending. Some districts have more funds from sources other than local property taxes than they need to fund their BASE budgets. These districts do not have to levy any mills to fund their BASE budgets, and they can apply their excess funds for over-BASE spending.

Under the current school funding system each district receives revenue from the state general fund for direct state aid, which is equal to a portion of each district's BASE budget; and guaranteed tax base aid, which depends on the district's tax base and the amount of its BASE budget not paid by direct state aid. Direct state aid payments are not dependent on the amount of other funding a district has. Guaranteed tax base aid payments do depend on the amount of other funding a district has.

### Required statewide mill levy to fully fund BASE budget

The additional statewide property tax mill levy that would be required to fully fund school districts' BASE budgets is 60 mills. This assumes that all the revenues currently available to schools for the BASE budget, other than local property taxes, would be collected and used by the state to fund school districts' BASE budgets. However, it assumes that \$7 million in prior year's fund balance would not be available on an ongoing basis under this funding mechanism. This is shown in Table 2.

The new uniform school levy would need to raise a statewide total of \$99.38 million. This is slightly more than the amount raised by local property taxes under the current system, because non-levy revenue that now goes to over-BASE spending would be used to fund the BASE, but reappropriated fund balances would not be significant.

| <b>Table 2</b><br><b>Calculation of the Additional Statewide Mill Levy for Schools</b><br><b>To Fully Fund the BASE Budget with no local Property Taxes</b><br><b>Based on School Year 2001-2002 Projections</b><br><b>(\$ million)</b> |                        |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|
| Local property ad-valorem taxes for BASE budget                                                                                                                                                                                         | \$ 95.26               |
| Plus fund balance not expected to be ongoing                                                                                                                                                                                            | 7.00                   |
| Minus revenue allocated to over-BASE budget                                                                                                                                                                                             | <u>(2.88)</u>          |
| <b>Amount needed from statewide mill levy</b>                                                                                                                                                                                           | <b><u>\$ 99.38</u></b> |
| Revenue Needed                                                                                                                                                                                                                          | \$ 99.38               |
| Divide revenue needed by the mill value                                                                                                                                                                                                 | <u>\$ 1.65</u>         |
| <b>Additional statewide mill levy needed</b>                                                                                                                                                                                            | <b><u>60.41</u></b>    |

If any of the revenue currently available to fund the BASE budget were not used to fund the BASE, the uniform mill levy would have to be higher. Each mill levied generates \$1,645,207 in revenue. Each \$1 million of revenue currently available to fund the BASE that would not be used for BASE funding would require increasing the levy by 0.6 mills (\$1 million / \$1.645 million per mill).

Certain non-levy revenue sources are allocated among taxing jurisdictions in proportion to the mills they levy. Replacing local school mill levies with a statewide levy would change the allocation of non-levy revenue in most locations. In addition, the amount of allocable non-levy revenue changes over time due to fluctuations in the economy and changes in the law. But, if the two largest of these non-levy revenues, oil and natural gas production taxes and coal gross proceeds tax, were separated into county and school portions, then the same amount of these funds would be available for the schools.

### **Comparison with existing local BASE levies**

Table 3 shows the percentage of levy districts where local school BASE budget mill levies would be higher with the current funding system than they would be under a statewide school levy, which combined with the existing revenues would fully fund the BASE budget without any local property tax levies. It also shows the percentage of students in the state who are in those districts.

| <b>Table 3</b><br><b>Percent of School Districts and Students</b><br><b>Where a Statewide Uniform Levy is Less than the Current School Levies</b> |                         |                   |
|---------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|-------------------|
| <u>Statewide Uniform School Levy for BASE Budget</u>                                                                                              | <u>% Levy Districts</u> | <u>% Students</u> |
| All Local Revenue Used to Fund BASE Budget                                                                                                        | 50.0%                   | 72.8%             |

The number of students in a levy district is roughly proportional to the population. Thus, if all local revenue were used to fund the BASE budget, the uniform school levy would be lower than current local general fund school levies for about 50% of the school districts and 73% of taxpayers.

### **Future Funding Sources and Financial Constraint Incentives**

Funding the BASE budget with a uniform statewide mill levy rather than levying any local property tax mills for the BASE budget has two policy considerations; one that is tangible and one that is philosophical. First, expenditures may grow faster than the property tax revenue base. If so, the 155.41 mills (the existing 95 mills plus the new 60.41 mill levy) needed for the fiscal 2001-2002 school year probably will be insufficient

to support the property tax portion of the BASE budget in the future. Under a uniform statewide mill levy concept for the school general fund BASE budget, does the statewide property tax levy float to continuously fund a property tax percentage of the BASE budget? If not, when expenditures increase faster than property tax revenue, do the state's other general fund revenue sources pick up a larger portion of the school BASE budget?

Second, would removing local funding from the school BASE budget further separate increased school expenditures and increased taxes in the minds of local taxpayers? Would this make it politically difficult to manage the continuous demands for more education funding?

### **Questions**

Question 1: Does the Council want to consider replacing local school mill levies with a uniform statewide school levy?

Option A: Yes

Option B: No

Question 2: Should all of school districts' current, non-property tax general fund revenue be used to fund the BASE budget?

Option A: Yes

Option B: No

Question 3: Should a uniform statewide property tax levy float to fund a specific percentage of the BASE budget?

Option A: Yes

Option B: No, expenditure increases that outpace the property tax revenue will be funded with other state general fund revenue sources. Thus, the property tax percent of the budget will shrink and the other state general fund portion of the funding will grow.